

## ***INTRODUCTION***

The major factor affecting the 1999 budget projections is the uncertain outlook for the local economy. After very strong economic growth during 1998 the local economy appears to be headed for a slowdown. The slowdown is due to both the stabilization of production at Boeing but also the impact of weaknesses in Asian markets. The national economy got off to a strong start in 1999 as seen by fourth quarter 1998 GNP growth of 6.1% and January's .6 percent growth in U.S. personal income. Despite strength at the national level, there is sufficient uncertainty about the local and national economies in 1999 to dictate that King County follow a prudent fiscal course in 1999. Although much of the County's revenue is derived from property tax, which is very stable, many of its revenue sources are sensitive to the economy. During 1998, there were significant increases in real estate related tax and fee revenues; during 1999 we are not projecting similar increases. Other large revenue sources - such as the sales tax and interest earnings -- are highly dependent on the economic outlook for 1999. Unlike other neighboring governments, especially cities, King County has very few revenue sources, so economic downturns have a strong impact on overall revenues. Taxes account for nearly 40 percent of total revenues and two taxes, the sales and property tax, account for 69 percent of that amount. This compares with Seattle where 30% of total revenues are from taxes but tax revenues include at least four nearly equal sources (property, sales, business and occupation, and utility taxes). The difference of tax sources between counties and cities leads to different outlooks for the 1999 budgets.

The signs of a local economic slowdown are emerging. Economists estimate that the Puget Sound employment growth rate dropped to less than 3 percent during the first half of 1998, somewhat lower than it has been for much of this decade. Boeing has already announced plans to reduce employment by 18,000 to 28,000 with 7,000 to 10,000 jobs lost locally<sup>1</sup>.

The following information provides more detail on our general economic forecast, a description of each of the revenue sources, and a fund by fund analysis. The forecasts are conservative but realistic and will provide a sound basis for funding decisions.

## ***General Forecast***

The forecast was developed by surveying local economists, reviewing published State and national forecasts, and tracking recent economic developments. This review was conducted to identify the economic trends expected for 1999-2001 and to make forecasts of selected indicators that would be consistent with the local outlook. The Puget Sound Economic Forecaster was used extensively in developing this forecast.

The recent two year period (1997 - 1998) has been exceptional by many measures of the local economy. In the last year, the King County economy has created close to 60,000 new jobs. Unemployment has fallen to below 3%, matching lows in 1966 and 1990. Personal income growth in the Puget Sound region was 5.6 percent and is forecasted to grow 5.0 percent in 1998<sup>2</sup>.

In the years ahead we see a slowing of the regional economy. This slowing is affected by many factors including:

- The U.S. economy is likely to slow somewhat over the coming year. The Washington Office of the

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<sup>1</sup> Business News : Thursday, July 23, 1998 Seattle Times "The loss of 3,000 to 8,000 jobs is expected by the end of this year. Among the 28,000 will be at least 12,000 commercial-jet-division jobs, with many of those to be cut from the Puget Sound area's work force."

<sup>2</sup> The Puget Sound Economic Forecaster, Conway Pederson Economics, Inc., Volume 6, Number 4, page 1, November 1998..

Forecast Council forecasts that real GDP will slow from 1998's rate of 3.9% to 3.4% in 1999.

- Weakness in Asian markets has reduced the demand for grain, forest products, and other basic commodities. Grain and lumber shipments from the Port of Seattle are down significantly from last year. This weakness has also affected the economy of Canada, Washington's second largest trading partner.
- Boeing has announced plans to reduce its local labor force by layoffs in 1999 and 2000.

The slowdown in the state and local economies are unlikely to lead to recession but to more traditional rates of growth. Employment growth in 1999 is projected to fall to 2.4% and then 1.6% in 2000. This is a reduction from growth rates of 5.1% and 4.2% in 1997 and 1998<sup>3</sup>. The forecasted growth in employment and other variables for the Puget Sound, from the November 1998 Economic Forecaster, is presented in Table 1 below :

**Table 1: Economic Forecast for Puget Sound Region**

<b><u>Economic Forecaster</u>, November/December 1998 Forecast, Puget Sound Region</b>				
	1997	1998	1999	2000
<b>Annual Growth (% change)</b>				
Employment	5.0	3.9	1.7	.9
Personal Income (Cur \$)	5.6	5.0	3.1	2.2
Consumer Price Index	3.5	3.0	2.5	2.8
Housing Permits	8.8	9.9	-3.4	-13.4
Population	1.8	2.0	1.8	1.4
Taxable Retail Sales	10.4	7.0	4.2	.8
Unemployment Rate	3.7	3.3	3.5	4.0

### *Consumer Spending and Personal Income*

Consumer confidence is a driving force in any economic recovery and is generally reflected in increased spending for durable goods (eg. automobiles and furniture). Durable goods spending has had a strong impact on the local economy: in 1996 spending increased 8.5 percent and 19.0 percent in 1997<sup>4</sup>. Durable goods spending has been closely tied to the housing sector .

The largest consumer sensitive revenue source is sales tax. King County's receipts for the sales tax include funds for transit, criminal justice, and the Current Expense Fund (CX). The forecasted reduction in the regional economy has led to sales tax growth rates much below the previous year; the public transportation fund which is based on countywide sources, is forecasted to grow at 5.8%. The Current Expense is forecast to grow at 4.5% over the 1998 levels, before the impact of annexations and incorporations, with a growth rate only slightly over 2% after annexations and incorporations. The Criminal Justice Fund, which is based on both regional revenues and unincorporated area population, is forecasting growth of 2.5%.

<sup>3</sup> Economic Forecaster, page 7, August 1998.

<sup>4</sup> Economic Forecaster, page 4, August 1998

### ***Growth Management and King County Revenues***

Governance transitions continue to impact King County's unincorporated areas. In 1989, about 590,000 people lived in unincorporated King County, the 28 suburban cities had about 350,000 in population and the city of Seattle about 500,000. Over the next nine years, governance changes and growth shifted those categories to the current totals of: unincorporated King County, 390,000; the 37 suburban cities, a total population of over 700,000 and the city of Seattle about 540,000. On August 31, 1998, the new city of Kenmore was incorporated, with a population of over 17,000. 1998 also saw further shifts of populations into cities, with annexations anticipated or completed in cities including Auburn, Bothell, Burien, Des Moines, Duvall, Lake Forest Park, Newcastle, Redmond and Shoreline. Residents of a portion of the urban area east of Lake Sammamish decided in November 1998 to form the City of Sammamish, with an estimated population of 27,000.

The revenue impacts of annexation and incorporation outpace the impact of population shifts alone. Annexations and incorporations affect several revenue sources. Many annexed areas and new cities include a retail and commercial tax base, which will generate both property and sales tax. Some of the remaining unincorporated areas remain as residential communities which demand local services such as police, parks and animal control, but do not generate significant tax revenue.

The largest impacts of annexation and incorporations are felt in agencies which are partially dependent upon user fees or property taxes from the unincorporated areas, such as the Surface Water Fund and the County Road Fund. The General Fund also is impacted by the decline in sales tax revenues as areas formerly unincorporated annex or incorporate. The County Road Fund receives funding from the unincorporated area levy as well as other funding sources.

King County entered into local service agreements with the new city of Kenmore, and continued its contractual relationships with many of the suburban cities. The service contracts help to partially offset the loss of sales tax, road levy and other revenues which now accrue to the cities.

### ***Interest Rates and Interest Earnings***

The three reductions in the federal funds rates in 1998 has partially solved the uncertainty concerning the future direction of short-term interest rates. It remains to be seen what the path will be for interest rates in 1999. Analysts are divided on whether interest rates will remain stable during 1999 or increase.

Interest rates have a major impact on both revenues and expenditures to the County. Lower rates reduce earnings from invested balances; in 1998 the CX fund will earn in excess of \$13 million from these balances. Lower rates also lower costs of borrowing funds; this is especially important for capital intensive services such as wastewater, transit, and to some extent the CX fund.

Consistent with other economic forecasts, we have slightly lowered the interest earnings from the December 1998 rate of 5.77% to to an average rate of 5.5% percent during 1999. The forecast also assumes that the balances remain at 1998 levels, levels higher than previous years. Our forecast of short-term rates to be earned on County investment balances are in Table 2 below:

**Table 2: Interest Rate Forecast**

<u>1998 3rd Qtr.</u>	<u>1998 4th Qtr.</u>	<u>1999 Annual Average</u>
6.0 %	5.8 %	5.5 %

**KING COUNTY REVENUES**

King County designates its money into over 50 separate funds. The largest funds include those for transit, wastewater, surface water management, roads, and the county general fund. Total revenues to the County exceed \$2 billion dollars. Table 3 identifies the major revenue sources for King County for all funds.

**Table 3: King County Revenues, All Funds, 1997 - 1999****ALL FUNDS REVENUE SUMMARY**

	<b>1997 Adopted</b>	<b>1998 Adopted</b>	<b>1999 Proposed</b>	<b>1999 Adopted</b>
Taxes	675,767,143	717,567,775	763,189,257	763,614,200
Licenses & Permits	14,820,717	16,064,790	16,043,930	15,870,635
Intergovernmental Revenue	26,180,043	28,640,718	26,756,947	26,756,947
Federal Grants-Direct	28,342,002	24,148,813	26,772,615	26,829,914
Federal Shared Revenues	770,375	721,204	732,617	732,617
Federal Grants-Indirect	41,299,570	46,529,744	47,950,500	47,950,500
State Grants	80,410,861	81,335,326	82,039,038	82,875,019
State Shared Revenues	751,562	151,721	177,912	177,911
State Entitlements	32,166,680	29,530,487	25,069,090	26,326,768
Stadium Operating Revenues	10,517,057	9,744,434	6,853,074	6,853,074
Grants From Local Units	313,616	320,175	470,732	470,732
Intergovernmental Payment	83,790,997	105,111,726	116,452,916	118,042,149
Charges For Services	535,392,848	543,716,432	596,858,670	596,786,765
Fines & Forfeits	6,775,148	6,300,462	6,493,323	6,493,323
Miscellaneous Revenue	246,062,859	107,664,284	189,293,849	135,338,054
Non Revenue Receipts		760,672	243,000	243,000
	(185,358)			
Other Financing Sources	171,433,829	252,000,451	231,464,131	233,893,149
<b>Subtotal Operating &amp; Debt Service</b>	<b>1,954,609,949</b>	<b>1,970,309,214</b>	<b>2,136,861,601</b>	<b>2,089,254,757</b>
Capital Project Revenues	540,860,597	716,751,950	676,329,212	676,329,212
<b>TOTAL COUNTY REVENUES</b>	<b>2,495,470,546</b>	<b>2,687,061,164</b>	<b>2,813,190,813</b>	<b>2,765,583,969</b>

The largest revenue sources are taxes and charges for services, respectively. Taxes include the property tax, the sales tax, and taxes on real estate transactions. Charges for services include both direct contracts, interfund payments, and other services provided by the county.

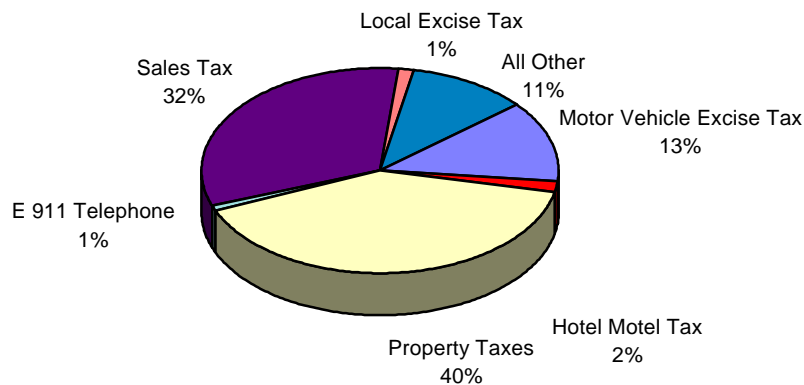
In the remainder of Section 2 each of the major revenue sources will be discussed. Section 3 addresses the County's funds, with a special focus on the Public Transportation Fund, the Water Quality Fund, and the Current Expense Fund. An appendix provides further detailed information on revenues.

## ***Tax Sources***

The major tax sources for the County include property taxes, sales and use taxes, motor vehicle excise tax, hotel and motel taxes, E911 excise taxes, and other sources. Total King County tax revenues supporting operating expenses and debt service are projected to be \$ 763 million in 1999, an increase of 6.3 percent over the 1998 estimate. Taxes are the largest source of revenues to King County, accounting for 36.6 percent of all operating revenues and 60.6 percent of the revenues to the Current Expense Fund. The property tax is the single largest tax source for the county, raising over \$337 million in 1999. Figure 1 below provides the breakdown of the tax sources to the county.

**Figure 1: Tax Sources**

**Tax Sources to King County  
All Funds, 1999 Adopted**



## ***PROPERTY TAXES***

Property taxes are collected through the countywide levy, the unincorporated area levy, and funds dedicated to Emergency Medical Services and voter approved debt. These monies are dedicated to different funds within King County.

Property tax revenues are limited by both policy and State law. The levy amount is limited by the 106 percent annual lid on increases. As a matter of policy, King County has not applied this limit to lid lifts, such as the AFIS levy, and applied it to the unincorporated area levy after adjustments for changes in population. The one important exception to this rule is that the value of any new construction is assessed at the prior year's levy rate and added to the 6 percent increase to set the total new levy amount. Therefore, the level and value of new construction activity is the key variable in estimating the total revenues the County can expect to receive from property taxes. Due to the limitations on property tax, the revenue source is a fairly stable source of income to King County.

The All-County levy<sup>5</sup> is projected to go up by 7 percent in 1999, with new construction providing 2.6 percent of that increase; the base levy amount is being increased by 4.5%.. New construction assessments in 1999 were the highest since 1991, at just over \$3.3 billion. The overall all county levy is projected to increase from \$203.0 million to \$217.3 million. The amount remaining for the General Fund is this amount less debt service, AFIS, river improvement, and other set asides. The CX projected revenues from the property tax levy are \$180.8 million, five percent or \$10.1 million more than the prior year<sup>6</sup>

The Unincorporated Area Levy (traditionally the “road levy”) will levy \$48.1 million in 1999. This is an increase of 3.5 percent over 1998.

### *S A L E S   T A X E S*

The Countywide sales tax rate is 8.6%. Of this amount, the following percentages are collected:

- 1% in unincorporated portions of the County
- .15% in incorporated portions of the County
- .6% transit tax (entire County)
- .1% criminal justice tax (entire County)

Sales taxes are collected by several funds within the County. The largest amount is used by Transit. The following funds are projected to receive the following amounts in 1999:

- Public Transportation Fund receives \$158 million
- General Fund receives \$63.8 million
- Criminal Justice Fund receives \$10.3 million

The Criminal Justice Fund receives sales tax from the extra 1/10 of 1% county-wide tax approved by the voters in 1992. The total collected in the County is distributed to local jurisdictions (which includes unincorporated King County) on the basis of population after 10 percent is taken off the top and allocated to King County government. King County’s total allocation will amount to approximately \$10.3 million from the sales tax in 1999.

The Transit Fund receives a county-wide sales tax at a rate of .6% to fund public transportation. The projected 1999 revenues are \$158 million, based on a projected growth rate of 5.8%.

The General Fund receives 1% from unincorporated area transactions and .15% from incorporated areas.

The sales tax is strongly influenced by changes in the economy and by the geographic areas from which it is collected. Because of the different bases of the taxes, each of the different funds (Transportation, General Fund, Criminal Justice) project different growth rates for the sales tax. The Public Transportation Fund, which levies the sales tax countywide, is forecasting growth of 5.8 percent. The Criminal Justice Fund is forecasting growth of 2.5%, while the General Fund is forecasting growth of 4.5%, before adjustment for annexation and incorporation. After adjustment, growth is slightly over 2 percent.

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<sup>5</sup> The All County levy includes the CX Fund and transfer to mental health/developmental disabilities, river improvement fund, human services, veterans’ aid, Intercounty river improvement, and limited bond redemption.

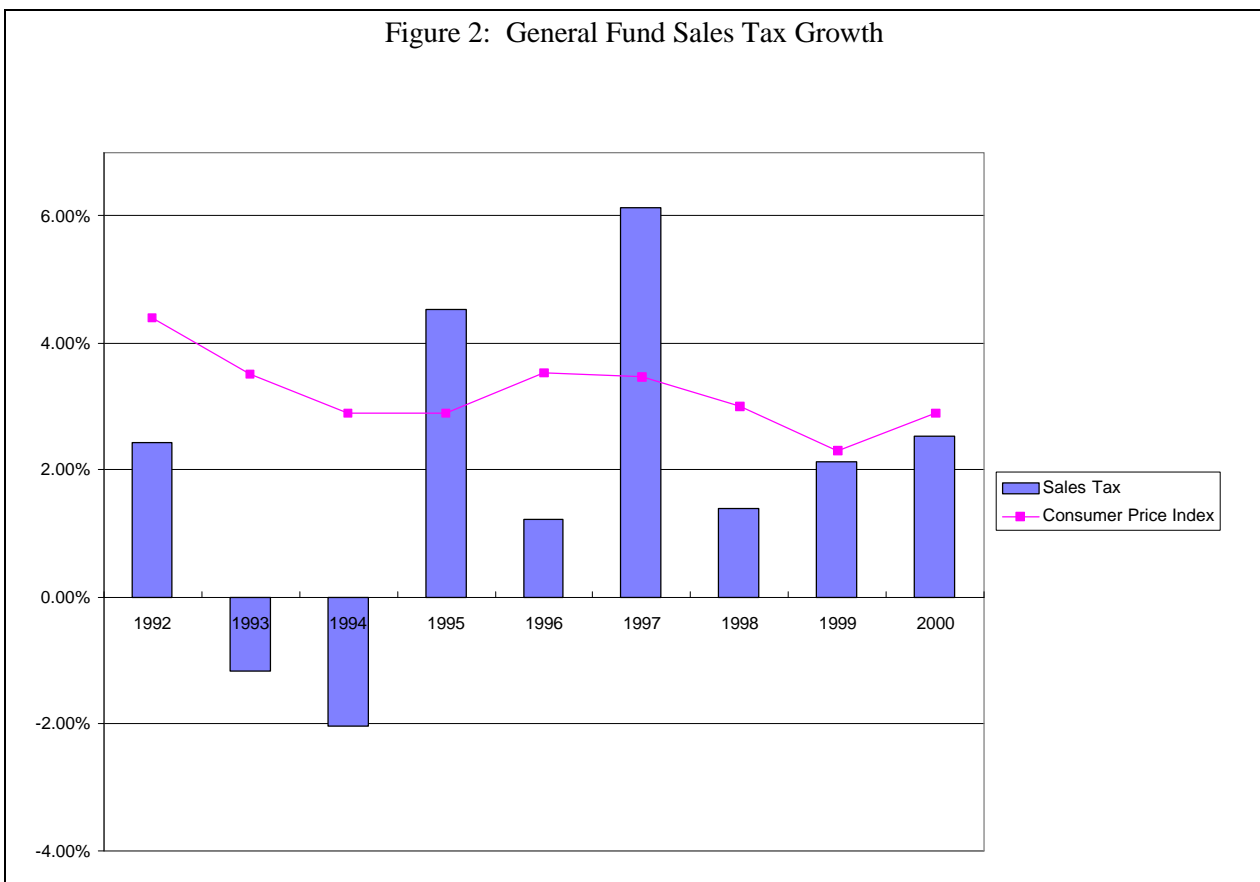
<sup>6</sup> This is before adjustment for the collection rate.

## ECONOMIC AND REVENUE FORECAST

Sales tax to the General Fund is most affected by the transition of King County's revenue sources. Overall sales tax receipts in 1998 were up only slightly from 1997 due to the large impact of annexations, incorporations, and patterns of regional growth. During 1998, patterns of sales tax growth were dramatically different in parts of the County. Some north and east cities experienced double digit growth while many cities in the southern portion of the County had growth at half that rate. As King County continues to lose population in the north and east its unincorporated area taxes will be increasingly tied to sales in the southern portion of the County.

During 1999, Kenmore's 1998 annexation will reduce sales tax revenues by \$1 million. Although this estimate is higher than that in the incorporation study, OBSP has found these studies to be underforecasting and has independently developed this new estimate. The potential incorporation of Sammamish is estimated to result in the loss of \$250,000 during late 1999. Finally, other annexations are projected to reduce revenues by nearly \$200,000.

General Fund sales tax revenues for King County have not kept pace on an annual basis with changes in the consumer price index. Figure 2 below presents the forecasted annual change in sales tax receipts between 1991 and 2000.



Total projected 1999 sales tax revenue to the General Fund is \$63.8 million, which includes the impact of annexations and incorporations. The "base" 1999 tax receipts are projected to grow over the 1998 level of receipts by 4.5 percent, but after annexations and incorporations, the growth is only slightly over 2 percent. Of the total, nearly \$3 million will be deposited to the Children and Family Services Subfund and \$3.1 million to the Sales Tax Reserve Subfund, with the remaining \$57.7 million dedicated to the Current Expense Subfund. These three subfunds comprise the General Fund.

### *MOTOR VEHICLE EXCISE TAX*

The MVET provides over \$90 million in revenues to King County. These funds are dedicated to public health, roads, criminal justice and other purposes. The State of Washington Department of Licensing's (DOL) forecast of Motor Vehicle Excise Tax Revenues has been relied on to develop the forecasted revenues. The DOL forecast that under current law total collections will increase 5.58% between FY 99 and FY 2000, with an additional 5.52% growth between FY 2000 and FY 2001.

The passage of Referendum 49 in November 1998 increased state funding for county criminal justice activities. The estimated impact to King County during fiscal year 1999 is \$1.17 million.

### *REAL ESTATE TAXES*

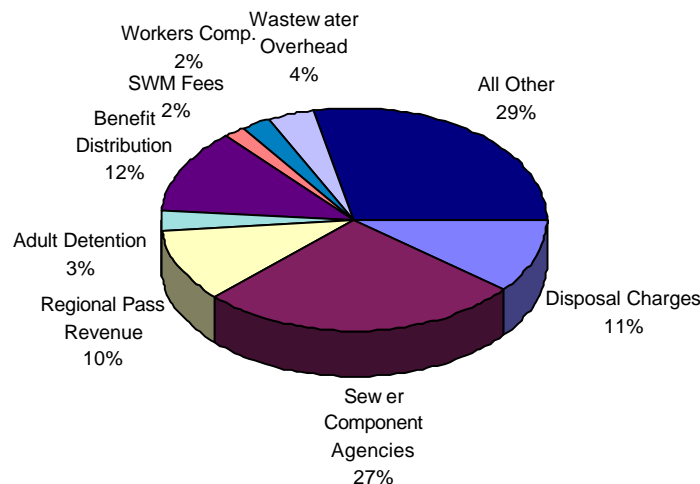
King County levies the Real Estate Excise Tax (REET) in unincorporated King County and collects a 1% collection fee on all REET taxes collected in the County. High levels of real estate sales in 1998 brought in significant amounts for all REET related accounts. The Adopted Budget forecasts a decline from these levels as real estate sales slow with the economy.

REET #1 and REET#2, both at .25%, are dedicated to the unincorporated area. Revenues from each tax are estimated at \$5.8 million in 1999. This represents a significant decline from revenue estimates of \$7.3 million during 1998. The REET collection fee, which is dedicated to the Current Expense Subfund, is also forecast to decline during 1999 to \$2.4 million.

### *Charges for Services*

After taxes, the second largest income category for the General Fund are charges for services. Charges for services include public safety and court contracts, motor vehicle licensing, recreation programs, health services, recording and reproducing county documents, and other services. Charges for services provide the major sources of revenue for the wastewater, transit, solid waste. Figure 3 below provides the breakdown for charges for services.

**Figure 3: Charges for Service Revenue, 1999 Adopted**





As Figure 3 demonstrates, the majority of charges are associated with the disposal of solid waste, sewer treatment, and transit activities.

### ***Other Revenues***

Other revenues include a wide variety of revenues, many related to interfund payments. Some of the larger revenues include motor pool rental, insurance, facilities management, and related internal transfers.

### ***FUND ANALYSIS***

The County allocates its financial resources into a variety of accounting entities called “funds” or “subfunds” to account for revenues and expenditures. The use of multiple funds is necessary to ensure compliance with State budget and accounting rules, and to promote accountability for specific projects or activities.

Operating expenditures for services typically associated with the County, such as adult detention, public safety, parks, and other functions are accounted for in the General Fund. The Current Expense Fund is a subfund of the General Fund.

Many departments or programs have separate funds or subfunds. Special revenue funds include the mental health fund, the public health fund, community development block grants, department of development and environmental services, and other funds. Enterprise funds include transportation, Wastewater, Solid Waste, and other functions. Capital project funds account for all resources received and use for the acquisition or development of capital improvements. Table 4 identifies the major funds and the revenues for each fund.

**Table 4: Revenues by Fund Type**

<u>Fund Type</u>	<u>Amount</u>	<u>Percent of 1999 Revenues</u>
General Fund	425,393,397	15.4%
Special Revenue Fund	568,451,758	20.6%
Enterprise Funds	711,421,511	25.7%
Internal Service Funds	202,830,670	7.3%
Debt Service Funds	181,157,422	6.6%
Capital Project Funds	676,329,212	24.5%

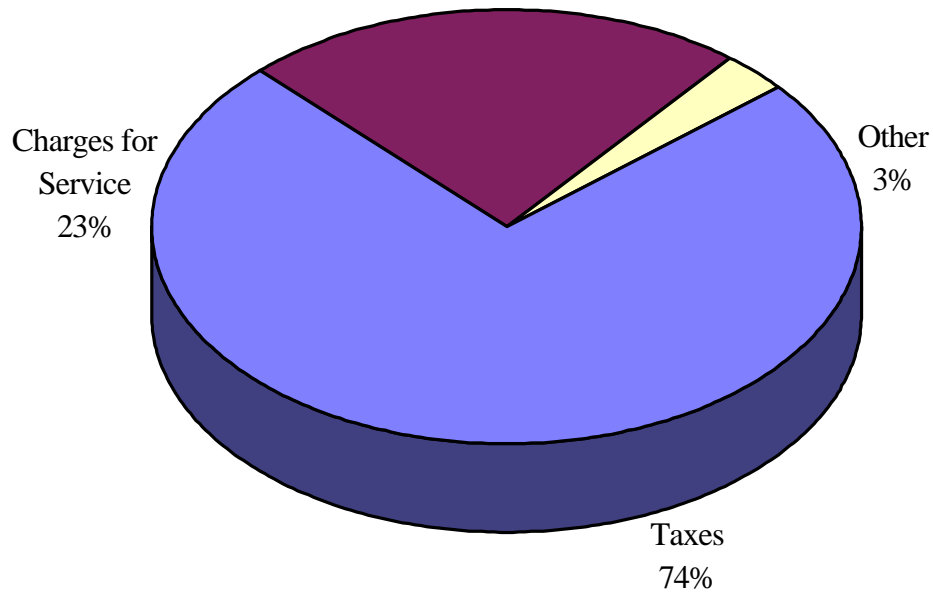
Because of the large number of County funds, only three will be discussed here. Additional detail is provided in other sections of the budget document.

### ***Public Transportation Enterprise Fund***

The public transportation fund is one of the largest funds operating within King County. This fund accounts for the operations and maintenance of public transportation facilities in King County. Primary revenue sources include sales and motor vehicle excise taxes and passenger service fees. This discussion

does not include the capital funds associated with public transportation. The total operating revenues received by the fund for 1999 are \$345 million. Figure 4 provides detail on the operating revenue sources:

**Figure 4: Public Transportation Adopted 1999 Operating Revenues**



Of the taxes received by the fund, only two sources are used. The local sales tax provides \$158 million while the motor vehicle excise tax provides the remaining \$96 million.

### ***Water Quality Enterprise Fund***

Two funds account for the activities of the Water Quality Enterprise fund. Fund 461 accounts for the operations and maintenance while fund 461-6 accounts for capital improvements and expansion of the county's water pollution control facilities under the King County Water Pollution Control Division. Two major treatment plants exist -- the West Point Treatment Plant in Seattle and the East division Reclamation Plant in Renton. Major construction projects are funded through revenue bonds.

The wastewater treatment division operating budget for 1999 is \$180.7 million and the capital budget is an additional \$99 million. The sources of funds for these are primarily customer charges and bond proceeds, respectively.

### ***Current Expense Fund Revenues***

The Current Expense Fund (CX) raises its money from six principal sources. Table 5 indicates, the majority of this money is from the taxes, which account for 60.6 percent of revenue sources.

**Table 5: Current Expense Fund Revenues**

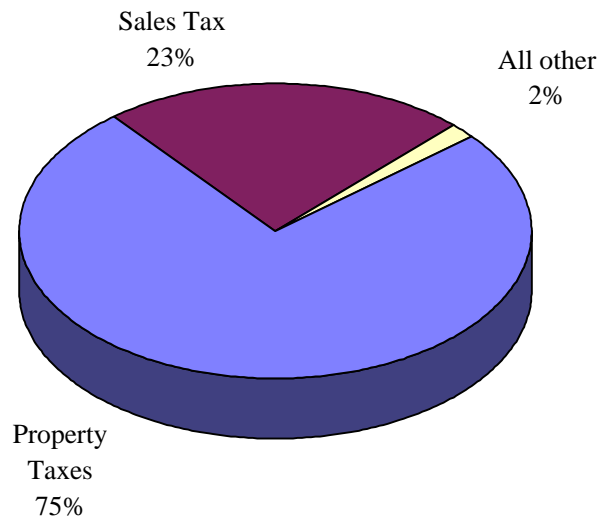
#### **Current Expense Revenue Summary**

	<b>1997 Adopted</b>	<b>1998 Adopted</b>	<b>1999 Proposed</b>	<b>1999 Adopted</b>
Taxes	222,453,792	243,205,844	251,988,622	252,491,551
Licenses & Permits	4,297,300	5,159,300	4,967,800	4,858,255
Federal Grants-Direct	353,070	567,654	1,488,544	1,105,599
Federal Shared Revenues	34,500	38,000	39,140	39,140
Federal Grants-Indirect	3,553,889	4,293,999	4,657,898	4,657,898
State Grants	1,713,228	1,624,236	1,548,526	1,548,526
State Shared Revenues	141,000	141,000	167,030	167,030
State Entitlements	1,325,000	1,317,000	1,257,917	1,257,917
Grants From Local Units	63,164	70,728	20,320	20,320
Intergovernmental Payment	22,311,034	46,388,515	47,569,109	49,080,342
Charges For Services	80,249,108	57,621,784	70,847,761	70,993,265
Fines & Forfeits	6,630,934	6,223,771	6,420,929	6,420,929
Miscellaneous Revenue	17,407,553	17,851,879	18,009,728	17,102,705
Other Financing Sources	3,241,003	15,948,844	6,484,849	7,148,024
<b>TOTAL REVENUES</b>	<b>363,774,575</b>	<b>400,452,554</b>	<b>415,468,173</b>	<b>416,891,501</b>

*CURRENT EXPENSE FUND TAX REVENUE*

Of tax sources, property tax is the most important. Figure 5 provides the breakdown of the tax sources:

**Figure 5: King County Current Expense Fund Revenues from Taxes, 1999 Adopted**



In 1999, the county expects tax revenues to increase 3.6 percent over 1998. Most of the increase is accounted for by increases in property taxes and other revenues.

*CURRENT EXPENSE FUND CHARGES FOR SERVICE REVENUE*

The greatest amount of change in revenues has occurred in the areas of charges for service and intergovernmental payments. Charges for services in the Current Expense Fund have grown rapidly in the past decade. In 1991, charges for services plus intergovernmental services accounted for \$64.7 million in revenue, or 24% of General Fund revenues. By 1999, this is projected to increase to \$118 million, or 29%. Table 6 provides detailed information for the past three years.

**Table 6: Charges for Service and Intergovernmental Revenues for the CX**

<b>CHARGES FOR SERVICE AND INTERGOVERNMENTAL PAYMENTS REVENUE SUMMARY</b>				
	1997 Adopted	1998 Adopted	1999 Proposed	1999 Adopted
Public Safety	17,024,745	21,499,657	26,314,634	26,614,721
Parks and Recreation	4,676,446	4,581,238	5,105,022	5,105,022
Resource Lands/Open Space	1,301,343	1,336,482	1,428,068	1,428,068
Licensing	7,839,000	7,952,500	8,841,105	8,829,455
Property Services	793,381	973,800	1,030,805	1,030,805
Records and Elections	7,096,610	6,575,982	8,513,604	8,917,948
Prosecuting Attorney	4,969,409	5,534,057	5,943,169	5,943,169
Superior Court	725,398	604,598	1,011,459	1,011,459
District Court	3,601,459	4,238,891	5,297,841	5,297,841
Judicial Administration	2,897,654	2,785,197	3,257,467	3,257,467
Adult Detention	20,615,255	25,541,596	24,674,947	25,728,947
Public Defense	2,143,782	2,029,731	2,317,141	2,317,141
All Other	28,875,660	20,356,570	24,681,608	24,591,564
Total	102,560,142	104,010,299	118,416,870	120,073,607

The largest two areas where the County provides contract services are Public Safety and Adult Detention. King County's Sheriff's office provides contract services to many jurisdictions around the region while the Adult Detention department provides contract services for the incarceration of misdemeanants.

**Outyear CX revenue projections:** In the years beyond 2000, we are projecting a significant slowdown in some of the major county revenue sources. The *Economic Forecaster* predicts that regional taxable sales tax growth will decline to 2.5% in 2000. A similar forecast is made by the State of Washington.

## CONCLUSION

King County's 1999 economic outlook is for a slowdown from the rapid growth of 1997 and 1998. There is significant uncertainty about some of King County's revenue sources, such as the sales and real estate taxes, since these are very responsive to changes to economic conditions. The revenue forecasts contained in this budget are conservative. Should the economic downturn be deeper or more rapid than forecast, revenues would need to be adjusted accordingly.

On the following pages the proposed Current Expense Financial Plan is presented for the years 1999 through 2001 with 1997 actuals and 1998 estimates. Further descriptions of each of the major revenue items are contained in the appendix to this section.

# ECONOMIC AND REVENUE FORECAST

## CURRENT EXPENSE FINANCIAL PLAN

(In Thousands)			
	1997 Actual (a)	1998 Adopted	1998 Revised
<b>BEGINNING FUND BALANCE</b>	53,399	44,551	62,641
<b>REVENUES (b)</b>			
<i>CX Revenues</i>			
Property Taxes	170,941	182,585	181,605
Debt Service (c)	(20,275)	(16,503)	(14,714)
Sales Tax	55,678	59,259	56,500
Interest Earnings	14,739	13,376	14,395
All Other Revenue	157,374	161,736	161,464
Sub-Total CX Revenues	378,457	400,453	399,250
<i>Restricted Revenues</i>			
CFS Revenues	3,278	3,390	3,250
Sales Tax Reserve Revenues	4,101	4,178	4,025
Inmate Welfare Revenues	924	951	951
Sub-Total Restricted Revenues	8,303	8,519	8,226
<b>TOTAL REVENUES</b>	386,760	408,972	407,476
<b>OPERATING EXPENDITURES</b>			
Operating Expenditures	(371,627)	(398,641)	(420,114) (h)
Estimated Underexpenditures (d)		6,892	7,268
<b>TOTAL OPERATING EXPENDITURES</b>	(371,627)	(391,749)	(412,846)
<b>CIP/OTHER CONTRIBUTIONS</b>	(5,887)	(7,190)	(8,935) (i)
<b>OTHER FUND TRANSACTIONS</b>			
<b>CHANGE IN INVENTORY RESERVE</b>	(4)		
<b>ENDING FUND BALANCE</b>	62,641	54,584	48,336
<b>RESERVES AND DESIGNATIONS</b>			
Carryovers	(7,254)		
Opportunity Fund Reserve	(1,417)	(292)	
Loans	(300)	(300)	(300)
Drug Enforcement Program	(539)	(313)	(539)
Anti-Profitteering Program	(448)	(446)	(448)
Inmate Welfare	(874)	(648)	(687)
Sales Tax Reserve (e)	(15,255)	(15,000)	(14,902)
CFS Fund Reserve (f)	(697)	(382)	(256)
Reserve for Next Year's Budget (g)	(284)	(12,125)	(1,900)
Other	(2,712)	(190)	(2,712)
<b>TOTAL RESERVES AND DESIGNATIONS</b>	(29,780)	(29,696)	(21,744)
<b>ENDING UNDESIGNATED FUND BALANCE</b>	32,861	24,888	26,592
<i>Fund Balance as a Percent of Revenues</i>	8.50%	6.09%	6.53%
<b>EXCESS OVER/UNDER 6% REQUIREMENT</b>	9,655	350	2,143

# ECONOMIC AND REVENUE FORECAST

## CURRENT EXPENSE FINANCIAL PLAN

(In Thousands)		(In Thousands)	
1999 Proposed	1999 Adopted	2000 Estimated	2001 Estimated
47,461	48,336	47,974	48,191
194,104	193,788	204,837	214,882
(19,279)	(18,960)	(22,076)	(24,166)
57,710	57,710	58,870	58,351
13,472	12,565	13,558	13,644
169,461	171,788	168,031	173,528
415,468	416,891	423,220	436,239
3,312	3,312	3,382	3,367
4,092	4,092	4,183	4,182
1,098	1,098	1,098	1,098
8,502	8,502	8,663	8,647
423,970	425,393	431,883	444,886
(422,534)	(424,953)	(432,738) (k)	(447,590) (k)
7,315	7,352	8,995	11,498
(415,219)	(417,601)	(423,743)	(436,092)
(8,514)	(8,154) (j)	(7,923) (l)	(7,943) (l)
47,698	47,974	48,191	49,042
(300)	(300)	(300)	(300)
(539)	(539)	(539)	(539)
(448)	(448)	(448)	(448)
(521)	(521)	(521)	(521)
(15,000)	(15,000)	(15,000)	(15,000)
(272)	(272)	(358)	(429)
(2,400)	(2,400)	(2,400)	(2,400)
(2,712)	(2,712)	(2,712)	(2,712)
(22,192)	(22,192)	(22,278)	(22,349)
25,506	25,782	25,913	26,693
6.02%	6.06%	6.00%	6.00%
68	258	0	(0)

# Current Expense Financial Plan

## FOOTNOTES

(a) The 1997 Actual column reflects actual amounts as reported in the 1997 Consolidated Annual Financial Report (CAFR).

(b) Revenue estimates for 1997-2001 are based on the following assumptions. The percentages indicate the expected annual percent change over the previous year, except in the case of interest, which is stated in its expected absolute earnings rate for the year.

	1997	1998	1999	2000	2001
Property Tax	Actuals	6.2%	6.7%	5.7%	4.9%
Sales Tax	Actuals	1.5%	2.1%	2.0%	-0.9%
Interest Earnings	Actuals	6.0%	5.5%	5.0%	5.0%
All Other	Actuals	Individual Estimates	Individual Estimates	Individual Estimates	Individual Estimates

(c) The debt service schedule for 1997-2001 is based on the following assumptions:

	1997	1998	1999	2000	2001
Existing debt service	9,638	7,949	7,283	6,935	6,895
Facilities Management	808	808	812	810	812
Farmland Preservation	479	475	475	475	475
Stadium	5,196				
Arts and Historic Preservation	361	359	362	359	361
Seattle Symphony		224	239	240	240
Logan/Knox Lawsuit			2,255	2,255	2,255
KCCH South Addition (Seismic Study)		262	283	278	278
Communications Center Design		91	98	96	94
Seismic Retrofit (Other Buildings)		50	51	50	54
DPS Evidence Storage		24	24	24	24
Superior Court Video Arraignment		13	13	13	13
Pacific Science Center		115	122	120	117
Election System		601	638	639	640
Financial Systems		808	858	858	858
1995 & 1996 Technology Bond	3,793	2,935	2,934	2,931	2,929
Black River Building Purchase			676	676	676
1998 Technology Bond			732	732	732
1998 General Government CIP			847	847	847
Renton Dredging			76	76	76
1999 Technology Bond			62	450	450
1999 General Government CIP			103	223	223
Other			142	1,036	1,036
Refinancing 91 & 93 Series			(125)	(16)	(16)
Courthouse Seismic				1,969	4,097
Total Debt Service	20,275	14,714	18,960	22,076	24,166

(d) The financial plan assumes an underexpenditure rate of 1.76% of total CX expenditures in 1998 and 1999; 2.12 % for 2000 and 2.64 % in 2001.

This is net of any amount that is returned to agencies as part of the Savings Incentive Program in which they get to reinvest one-half of all savings in excess of the required underexpenditure level, if budget conditions allow. The other half goes into an Opportunity Fund Reserve.

(e) An amount equal to 25% of the additional .2% sales tax had been set aside in a Sales Tax Reserve Fund until it reached its threshold of \$15 million set the Council to be kept in reserve for emergency needs. The 1999 Budget assumes full use of the Sales Tax Reserve collections (\$4,091,946) for major maintenance less the amount needed (\$98,341) to restore the 1999 reserve to its required level of \$15 million for a total amount of \$4,371,139. The Sa Tax Reserve is held steady at \$15 million in 2000-2001 by programming all of the Sales Tax Reserve collections for major maintenance during those ye

(f) An amount equal to 23% of the additional .2% sales tax is set aside in the Children and Family Services Fund. The reserve is growing in the years 1999-2001 as revenue is expected to outpace program expenditures during this period.

(g) Revenue from the sale of the Public Safety helicopter in 1997 were reserved for the Public Safety IRIS Mobile System. The 1998 reserves were for the the Logan/Knox lawsuit settlement and the support for Emergency Medical Services. The outyear reserves are for the unpaid portion of Logan/Knox.



## ECONOMIC AND REVENUE FORECAST

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(h) 1998 Operating Expenditures:

Adopted Budget	398,640
1997 Carryovers	5,233
Supplemental Activity	16,241
Est. Underexpenditures	<u>(7,268)</u>
Total	412,846

(i) 1998 CIP/Other Contributions:

Housing Opportunity	2,610
PERF	364
Parks CIP	514
Major Maintenance	3,702
1997 Carryovers	<u>1,745</u>
Total	8,935

(j) 1999 CIP/Other Contributions:

Housing Opportunity	3,310
PERF	375
Facilities CIP	250
Parks CIP	145
Major Maintenance	<u>4,074</u>
Total	8,154

(k) Operating expenditures for the period 2000-2001 are based on the following assumptions:

2000 - 1999 Proposed with a 2.0% COLA factor for salaries, a 2.5% inflation factor for O&M accounts, and a 9.0% inflation factor for employee medical benefits. This results in an overall inflation factor of 3.14%.

2001 - 2000 Estimated Budget with a 2.25% COLA factor for salaries, a 3.5% inflation factor for O&M accounts, and a 6.8% inflation factor for employee medical benefits. This results in an overall inflation factor of 3.09%.

(l) Estimated CIP contributions for 2000 and 2001, respectively.

## APPENDIX

### OPERATING REVENUES AND FORECAST ASSUMPTIONS

#### Detailed Descriptions

#### **TAXES**

##### Taxes

1998 Adopted	717,567,775
1999 Adopted	763,614,200

Property taxes and the retail sales and use tax are the major tax accounts. Other significant sources of tax revenues include taxes on gambling, the real estate excise tax, and the E-911 telephone excise tax.

Property Taxes: Property taxes generate more revenue than any other single source, and 1999 current year property tax receipts are projected to be about \$337 million. The table on the following page displays 1998 and 1999 property tax rates and tax levies for current year assessments. Projected receipts from current year levies are determined by collection rates which are estimated at 97 percent for the All County Levy.

Real Estate Excise Tax. Revenue from a .25 percent excise tax on the value of real estate sales in unincorporated King County are deposited in a special revenue fund and used for capital projects benefiting unincorporated area residents. Real estate excise tax revenues from the .25 percent tax are estimated to be \$5.8 million in 1999.

In 1992 the King County Council enacted the remaining .25 percent R.E.E.T. The funds are to be used for parks in unincorporated King County. As with the first .25 percent discussed above, this tax should yield \$5.8 million in 1999.

## ECONOMIC AND REVENUE FORECAST

Property Tax Revenues by Fund 1998 and 1999					
	1998		1999		Increase/Decrease
Assessed Valuation					
All County	134,616,854,111		149,083,182,982		14,466,328,871
Unincorporated Only	26,669,597,268		27,724,792,446		1,055,195,178
	1998 Rate		1999 Rate		
All County Levy					
Current Expense	\$170,470,406	1.266	\$180,507,734	1.211	10,037,328
Human Services	3,364,560	0.025	3,727,080	0.025	362,520
Veterans Aid	1,514,052	0.011	1,677,186	0.011	163,134
River Improvement	1,950,000	0.014	2,159,553	0.014	209,553
InterCounty River Improvement	50,000	0.000	50,000	0.000	0
Bond Redemption - Limited	16,751,319	0.124	19,279,326	0.129	2,528,007
Subtotal	\$194,100,337		\$207,400,878		13,300,541
Unincorporated Area Levy					
Road Services	\$46,459,532	1.742041	\$47,676,457	1.720	1,216,925
Traffic Policing & other uses			\$2,500,000	0.090	2,500,000
Subtotal	\$46,459,532	1.742041	\$50,176,457	1.810	
Total Statutory Levy					
Bond Redemption -- Unlimited	\$37,262,000	0.277	\$37,540,951	0.252	278,951
EMS Levy -- All County		0.000	\$43,234,123	0.290	43,234,123
Farmlands Conservation Tax	\$8,411,399	0.063	\$9,317,699	0.0625	906,300
Automated Fingerprint System	8,949,728	0.066	9,914,032	0.067	964,304
Total Property Tax Levies	\$295,182,996	2.193	\$357,584,140	2.399	62,401,144
Note: Amounts in table represent levied amounts, not amounts which are collected. Estimated collections are used in the adopted budget.					

## **LICENSES AND PERMITS**

### Licenses and Permits

1998 Adopted	16,064,790
1999 Adopted	15,870,635

Charges for licenses and permits are imposed as a means of regulating certain private activities in King County to ensure the protection of the health, safety and welfare of the general public. State law and County ordinances provide for permit processing fees to support the costs of reviewing residential and commercial development plans and of inspecting construction sites to ensure compliance with applicable codes and regulations.

Development permit fees are the largest source of revenues from County issued permits. Revenues from these fees accrue to the Department of Development and Environmental Service, the Road Fund, the River Improvement Fund, and the Public Health Pooling Fund.

The County also issues business/occupation and non-business licenses. The County issues professional licenses for such activities as taxicabs, carnivals, fireworks stands, amusement devices, massage parlors, food handlers, and private security guards. In the category of non-business licenses, animal licenses represent the largest revenue account. Revenues from licenses and permits depend on the volume of activity and on the portion of costs to be covered by the fee. As a general rule, regulatory fees are established to recover the costs of administration, review and regulation, and enforcement.

Although the County issues motor vehicle licenses for the State, the County is paid a fee for this service by the State, and revenues from this source are included in service fee revenues.

## **INTERGOVERNMENTAL REVENUES**

### Intergovernmental Revenues

1998 Adopted	316,489,914
1999 Adopted	330,162,557

Intergovernmental contributions include: (1) reimbursements to the County for services provided to other jurisdictions; (2) direct contributions in the form of project grants; (3) State allocated revenues such as grants-in-aid for mental health and developmental disabilities, gasoline tax, and liquor taxes. These sources represents 15.9 percent of all King County operating fund revenues.

Intergovernmental payments, (1) above, are revenues from reimbursements or payments for services to other jurisdictions which result from such activities as administration of elections, provision of municipal court services, delivery of public health care, booking and custodial care of jail inmates, and provision of public defense and public safety services. Provisions and terms for reimbursements are normally stipulated in contracts or interlocal agreements. Revenues from these sources are generally expected to follow changes in costs for the services and fluctuations in the volume of activity.

## **CHARGES FOR SERVICES**

## ECONOMIC AND REVENUE FORECAST

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### Charges for Services

1998 Adopted	543,716,432
1999 Adopted	596,786,765

Charges for Services is made up of two components, Service Fees and Intergovernmental Interfund.

Service fees account for about 28 percent of all King County operating revenues. Most of the revenues generated in King County's Enterprise funds -- Solid Waste, Airport, and Stadium -- are accounted for in this revenue category, and appear in the above figures. Likewise, Water Quality's revenue is almost entirely composed of Charges for Services, while Transit's fare revenue (a service charge) makes up only about 15% of its total revenue.

This category also includes charges for various services provided by King County which benefit specific individuals or identifiable groups of people, rather than the public as a whole. It is more equitable to charge users all or a portion of the cost of the service rather than finance the program entirely from general revenues.

Other service fees include charges for court filings; motor vehicle licensing; recreation programs; health services; spaying, neutering and sheltering of animals; recording and reproduction of public documents; and use of County facilities. Most of the fees are based on the actual costs incurred by the County in providing the services. Some fee structures, however, such as those for health and many recreation services, are set at a level below full costs in order that these programs will be accessible to a broad cross-section of people.

In the category of payments for services between County funds, there are direct payments and overhead payments. The 1999 amount collected from other funds for Current Expense overhead is \$23.8 million

### **FINES AND FORFEITS**

#### Fines and Forfeits

1998 Adopted	6,300,462
1999 Adopted	6,493,323

Revenues from fines and forfeits amount to only one-half of 1 percent of the County's total operating revenues. The largest source of revenues included here comes from assessments imposed by the District Court for traffic violations and crimes committed in unincorporated King County.

### **MISCELLANEOUS REVENUES**

1998 Adopted	107,664,284
1999 Adopted	135,338,054

The miscellaneous revenue category contains sources of income that are not accounted for elsewhere. Taken together, these sources account for 6 percent of all King County operating revenues. The largest single source included here is interest income.

Investment Interest: \$13.4 million will accrue to the Current Expense Fund. Under authority provided in state law, the King County Director of Finance invests County and non-County funds not otherwise invested nor required for immediate expenditure in financial instruments designated by state statute. The forecasted 1999 average earnings rate for County investments is 5.5%.

### **OTHER FINANCING SOURCES**

#### Other Financing Sources

1998 Adopted	252,000,451
1999 Adopted	233,893,149

The “Other Financing Sources” category the pass-through of taxes collected for the Public Facilities District to pay bonds issued to build the new baseball stadium, as well as other sources.